



MARUTI SUZUKI INDIA

Disappoints

India Equity Research | Automobiles

Maruti Suzuki India's (MSIL) Q2FY12 PAT at INR 2.4 bn (down 60% Y-o-Y and 56% Q-o-Q) was 40% below our and consensus expectations. EBITDA margin declined 320bps sequentially to 6.3%. High discounts, promotion cost, appreciating JPY, adverse product mix and negative effect of operating leverage were primary reasons for the dismal performance. Full impact of appreciating JPY is likely in H2FY12 as the exposure is unhedged whilst promotion and discounts are likely to stay high amidst poor demand. Weak Q2FY12 performance poses downside risk to our FY12E EPS of INR 79.7. Management call is scheduled on October 31, 2011. We maintain 'REDUCE' with target price of INR 1,060.

Dismal show in Q2FY12; margin at lowest in past seven years

MSIL's EBITDA margin dropped to its lowest in the past seven years to 6.3% in Q2FY12 versus 9.5% in Q1FY12. Appreciating JPY affected margins by 130bps on both high royalty and raw material costs. High promotion cost bloated other expenditure by 100bps and weak product mix and negative effect of operating leverage (since Q-o-Q sales dropped 10%) accounted for the balance decline.

Demand stays sluggish; JPY likely to be drag on H2 margins

While demand for petrol cars is sluggish, the full impact of JPY appreciation on imported raw material is likely in H2FY12 when the forex exposure is unhedged. Our sensitivity suggests if JPY stays at the current level, it can affect EBITDA margin by 160bps in Q3FY12.

Outlook and valuations: Challenging; maintain 'REDUCE'

Outlook for FY12 stays challenging. We maintain 'REDUCE/ Sector Underperformer' recommendation/rating on MSIL with a target price of INR 1,060. Management call is scheduled on October 31, 2011 at 10 a.m. IST.

Financials

Year to March	FY10	FY11	FY12E	FY13E
Revenues (INR mn)	296,231	369,163	400,108	447,640
Rev. growth (%)	42.1	24.6	8.4	11.9
EBITDA (INR mn)	39,689	35,193	36,576	42,893
Net profit (INR mn)	24,975	22,886	23,029	25,573
Shares outstanding (mn)	289	289	289	289
Diluted EPS (INR)	86.9	78.5	79.7	88.5
EPS growth (%)	79.0	(9.7)	1.6	11.0
Diluted P/E (x)	13.0	14.4	14.2	12.7
EV/EBITDA (x)	6.6	7.2	7.1	6.0
ROAE (%)	23.7	17.6	15.4	15.0

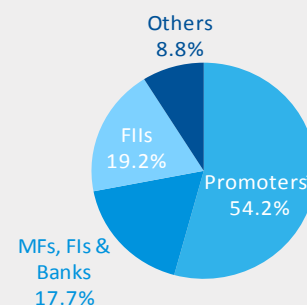
EDELWEISS 4D RATING

Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Low
Sector Relative to market	Equalweight

MARKET DATA (R: MRTI. BO, B: MSIL IN)

CMP	: INR 1,126
Target Price	: INR 1,060
52-week range (INR)	: 1,599 / 1,010
Share in issue (mn)	: 288.9
M cap (INR bn/USD mn)	: 325 / 6,598
Avg. Daily Vol. BSE/NSE ('000)	: 467.9

SHARE HOLDING PATTERN (%)



* Promoters pledged shares : Nil
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	(2.5)	(1.6)	1.2
3 months	(4.3)	(8.9)	3.2
12 months	(26.9)	(17.2)	(5.9)

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Financial snapshot

Volume analysis

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	Edelweiss comments
Volumes						
Units sold (nos)	252,307	313,654	(19.6)	281,526	(10.4)	In addition to bleak outlook, sales of 28,539 units lost on account of strike at Manesar.
Domestic	222,406	277,936	(20.0)	250,683	(11.3)	Market share in compact segment (A2) declined by 380bps Q-o-Q to 48.7%
Exports	29,901	35,718	(16.3)	30,843	(3.1)	
Realisation (INR)	298,741	284,935	4.8	295,529	1.1	

Financial analysis

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	Edelweiss comments
Revenues (net)	75,375	89,371	(15.7)	83,199	(9.4)	Broadly in line Edelweiss estimate
Other operating income	2,942	2,102	40.0	2,094	40.5	On higher income from services, scrap sales and cash discounts
Total revenues	78,316	91,473	(14.4)	85,293	(8.2)	1% above estimate
Raw material	61,566	70,756	(13.0)	66,917	(8.0)	
Staff costs	1,995	1,568	27.2	1,794	11.2	
Other expenses	9,814	9,545	2.8	8,438	16.3	On higher advertisement, higher royalty outgo and negative effect of operating leverage
Total expenditure	73,374	81,870	(10.4)	77,149	(4.9)	
EBIDTA	4,942	9,603	(48.5)	8,144	(39.3)	27% below Edelweiss estimates
Other income	1,177	1,340	(12.1)	1,801	(34.6)	
Interest	109	97	12.3	58	89.9	
Depreciation	2,664	2,382	11.8	2,425	9.9	High as Plant B at Manesar got commissioned during the quarter
PBT	3,346	8,464	(60.5)	7,463	(55.2)	
Tax	942	2,481	(62.0)	1,970	(52.2)	
Adjusted net profit	2,404	5,982	(59.8)	5,492	(56.2)	
Reported Net profit	2,404	5,982	(59.8)	5,492	(56.2)	

Margin analysis

as % of net revenues

Year to March	Q2FY12	Q2FY11	bps change	Q1FY12	bps change	Edelweiss comments
Raw material	78.6	77.4	125.9	78.5	15.6	40bps below estimate
Staff costs	2.5	1.7	83.2	2.1	44.4	
Other expenses	12.5	10.4	209.7	9.9	263.8	260bps above estimate
EBIDTA	6.3	10.5	(418.8)	9.5	(323.8)	240bps below estimate
Adjusted net profit	3.1	6.5	(347.0)	6.4	(336.9)	
Tax rate	28.1	29.3	(116.8)	26.4	174.8	

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